

INTERNATIONAL CONFERENCE (2007)
**TRANSNATIONAL CORPORATIONS (TNCs) AND CANADA-CHINA FOREIGN
DIRECT INVESTMENT (FDI): CHALLENGES AND OPPORTUNITIES**

Presentation Summaries

***FDI in General and the Canada-China FDI*, Dr. Karl Sauvant**, Columbia Program on International Investment, Columbia University, USA

The presentation will be about global trends in FDI in general and, in particular, will address the issue as to whether a backlash to FDI is in the making. The presentation will put the Canada-China FDI relationship in context.

***Canada and China: Embracing Sustainable Development*, Mr. Brian Emmett**, Formal Vic President of Canadian International Development Agency and Assistant Deputy Minister of Natural Resources Canada

The complicated economic, environmental and political relationship between Canada and China will give rise to many bilateral and multilateral issues that will need to be wisely and calmly handled on a day –to-day basis. A set of these issues is the subject of this conference; foreign direct investment and the role of transnational corporations in the evolution of our economies and our relationship as countries. This is a potentially contentious issue involving things that Canadians care deeply about: at first, resource exploitation, pricing and control and the role of the state in making economic decisions; Secondly, the relationship between resource use, environmental impact and sustainable development, both in Canada and globally; and thirdly, the structure of our economy and the future of industries that Canada thinks of as strategic.

***China Rising: Challenges and Opportunities*, Professor Manfred Bienefeld**, School of Public Policy and Administration, Carleton University, Ottawa Canada

China`s spectacular re-emergence as a world power is now universally recognised, but its implications for the world, for Canada, and even for China, remain uncertain and contested. And while this conference will focus in large part on the best ways of developing mutual opportunities for trade and exchange between Canada and China, it is also important to reflect on the wider framework within which those opportunities will arise.

In particular, Professor Bienefeld will draw attention to three challenges that must be confronted and resolved if China`s longer term needs and interests are to be reconciled with those of an increasingly fractured and contentious global system. The three challenges are: trade and adjustment; the environment; and finance. And these challenges will not be met unless China and the world`s other leading nations and powers have the wisdom and the courage once again to collaborate in creating a suitable international policy framework that will allow the pursuit of short term interests to be reconciled with the longer term need for balance and sustainability.

This is what happened at Bretton Woods in 1944. And this is what has to happen again, though under very different circumstances.

The Growth of TFP in Chinese Domestic Industries: Spillover of FDI or Institutional Effects ? **Professor Dianchun Jiang** Deputy Director, Institute of International Economics, Nankai University, China

Explicitly taking into account the dynamic transition characteristic of Chinese domestic economy, this presentation re-considers productivity spillovers of foreign direct investment (FDI) in China. It will be argued that the institution effects should be carefully spelt out when considering the spillover effects of FDI, because both FDI and economic transition can potentially improve domestic firms' efficiency. The FDI spillovers have been tested with and without the institution variable, using industry level panel data. It was found that when the institution variable is added, the coefficients of FDI become insignificant or even negative. It suggests that the improvement of the domestic firms' productivity is mainly a result of the reforming policies, but not the spillovers of FDI. It also indicates, however, that FDI may indirectly affect domestic firms' productivity as a result of Chinese institution change. The results imply that earlier studies may have largely exaggerated FDI spillovers in China due to failure to control for institution effects.

The Virtual Interactive Think Tank for FDI in China: Engineering Knowledge for Action in Modern Development **Dr. Val Samonis**, Certified Professional Consultant

Policy research, formulation, and implementation re FDI in emerging markets badly needs imaginative innovations and modern improvements that are offered by behavioural economics, new institutional economics, and an overarching knowledge management perspective that is predicated upon the role of knowledge/information in modern theories of the functioning of markets. The latest developments in China-West trade and investment are one more piece of evidence to support this thesis.

Asian Harbingers: China and the rise of TNCs from the South **Professor Hafiz Mirza**, *Investment Analysis, UNCTAD*

FDI by developing-country TNCs, especially from Asia, has risen rapidly over the past 15 years and now constitutes a sizeable share of global FDI flows. These outflows of investment are, however, concentrated both by country of origin and industry. Allowing for the caveat that this is still an emerging phenomenon, this presentation seeks to explain the how, why and where of FDI by developing countries' firms, with a particular focus on China. This presentation examines how developing-country TNCs are able to acquire competitive advantages, including proprietary expertise and technology, which allows them to operate in overseas environments and compete effectively with foreign firms. Many Asian TNCs possess sophisticated and distinctive advantages which they have created and nurtured over many years. Overall the empirical evidence shows that developing country TNCs' firm-specific or other competitive advantages cover a wider range than the technological and expertise-based competencies that the prevailing theory has normally considered. Chinese TNCs will be compared and contrasted with TNCs from other developing and developed countries.

Foreign Direct Investment and Economic Development in China's Minority Areas: Challenges in Policy and Practice **Dr. Dongyan Blachford**, University of Regina, Canada, and **Jianhong Qi**, Shandong University, China

This presentation focuses on China's FDI policy and practices and its impact for minority economic development. First, a clear picture will be provided in order to understand China's FDI policies and related issues in China's economic development.

Three major changes and the related issues in China were identified to indicate that the existing FDI policies are no longer producing optimal results. The major argument is that to include minority regions and share with its people the wealth that resulted from the recent growth in the country's economic development are not only important for the well-being of this marginalized population, but also crucial for the political stability, social and economic development, and international influence of China as a whole. Information and suggestions for FDI policy considerations and changes will be provided.

It is hoped that the analysis and ideas provided from this presentation will contribute to the understanding of FDI policy development in China and the issues and problems for future directions.

***Globalization on R&D: A New Trend of Economy Globalization* Dr. Zhang Yanzhong,
Member of Chinese Academy of Engineering**

The presentation will address the following issues: the significant influence of economic globalization on the world and the globalization of R&D; drivers from developed countries; the environment in developing countries; rapid development of TNCs' R&D in China; opportunities and challenges of globalized R&D for developed countries and for developing countries; the effects on the global economy; policies and measures taken by nations worldwide to cope with the globalization of R&D; main policies on FDI R&D by developed countries; policies on FDI R&D in developing countries; encourage the establishment of a R&D centre in developing countries; encourage developing countries to invest abroad in R&D; FDI R&D as one important part of the host country's Innovation System.

***TNCs in a Globalized Economy: Technology Spillovers and Economic Growth in China*
Dr. Jingfeng Zhao, Northwest University, Xian, China**

The effect of economic spillovers has become an increasing consideration for TNCs as a result of globalization. Based on theoretical studies on the modalities of this effect and the factors limiting it, this presentation analyzes the technology spillover situation of TNCs' FDI in China. The correlation between human capital and economic growth in China is illustrated as well. All analyses are conducted both on a general scale and at a regional level. The research results indicate that the combination of FDI technology and human capital can play a more significant role in the China's economic growth.

***The China-Canada S&T cooperation in agriculture and agri-food: Challenges & opportunities*, Dr. Johanne Boisvert, Director, International Science Cooperation, Agriculture and Agri-Food Canada**

Agriculture and Agri-food Canada has a long history of cooperation in agriculture and agri-food with China. Recent initiatives in S&T, such as the new China-Canada S&T agreement signed in January 2007, have opened new avenues for S&T collaboration. The presentation will summarize the history of the AAFC S&T cooperation with China and will describe the strategic actions being taken to further enhance the benefits of this cooperation in the future. The role of government in the S&T development in China will be discussed from the AAFC perspective.

***The Case for Canada in the Knowledge-Based Economy* Mr. Michael Darch, Ottawa Center for Research and Innovation**

Understandably, China will eye Canada as a major supplier of natural resources. Given our size and location, we are fortunate to be rich in natural resources and with our small population, those resources are available for export. But that view is a remnant of our colonial days when Canada was viewed as

hewers of wood and drawers of water. The Canada-China relationship can be much larger much more mutually beneficial.

Globalization is now a reality with transnational corporations looking to develop supply chains that respond to both cost pressures as well as pressures for innovation and market demand. Globalization is about taking advantage of new economic realities rather than replicating the relationships of the past. Agreements such as the North American Free Trade Agreement (NAFTA) and the European Community (EC) were created to respond to these globalization demands that transcend national borders. Canada has managed to survive and thrive despite having the world's largest economy on its doorstep. It has survived within a free trade environment and gone through painful economic adjustment to establish its position in a global market.

This can offer advantages to both China and Canada. Canada has learned how to take advantage of the US economy without becoming a fifty first state. Many of our knowledge based businesses thrive with minimal US presence and many US corporations are taking advantage of Canada as a base for certain of their assets. Microsoft's recent expansion to Canada and Dell's investments in Ottawa and Edmonton are excellent examples. Increasingly, many non North American companies are seeing the Canadian advantage. What does this mean to Canada-China FDI. Simply, Canada offers a softer landing into NAFTA while already having the infrastructure throughout the market. Chinese companies can set up and take advantage of the market quicker while having access to North American know how and innovation. Canada gains through the diversification of its economic base and access to the Chinese and broader Asian markets. Canada-China outward FDI flow is win-win. The above discussion will be illustrated using the practical example of the Ottawa region and its approach to China.

Cross-border Merger & Acquisition, Industrial Concentration and Development in China
Dr. Jinping Dai, Nankai University, Tianjin, China

A new cross-border merger and acquisition in China is in the making, from food and drinks to cars, household and personal care items, chemicals, electronic machinery and storage and retail. Housing and machinery have become the new targets of foreign direct investment. Many empirical studies in developing countries have proved that cross-border merger and acquisitions can change the domestic industrial structure and performance. China is characterized by its strong market and economy, what's the difference between China and other developing countries? The presentation will answer those questions. Dr. Jinping will present the correlation coefficients between the merger % acquisition and market concentration, and the relationship between merger and acquisition and industrial profits, employment and products. Dr. Jinping concludes that cross-border merger & acquisitions in China have increased the market monopoly and concentration, as well as industrial average profits, employment and products.